

MEMORANDUM

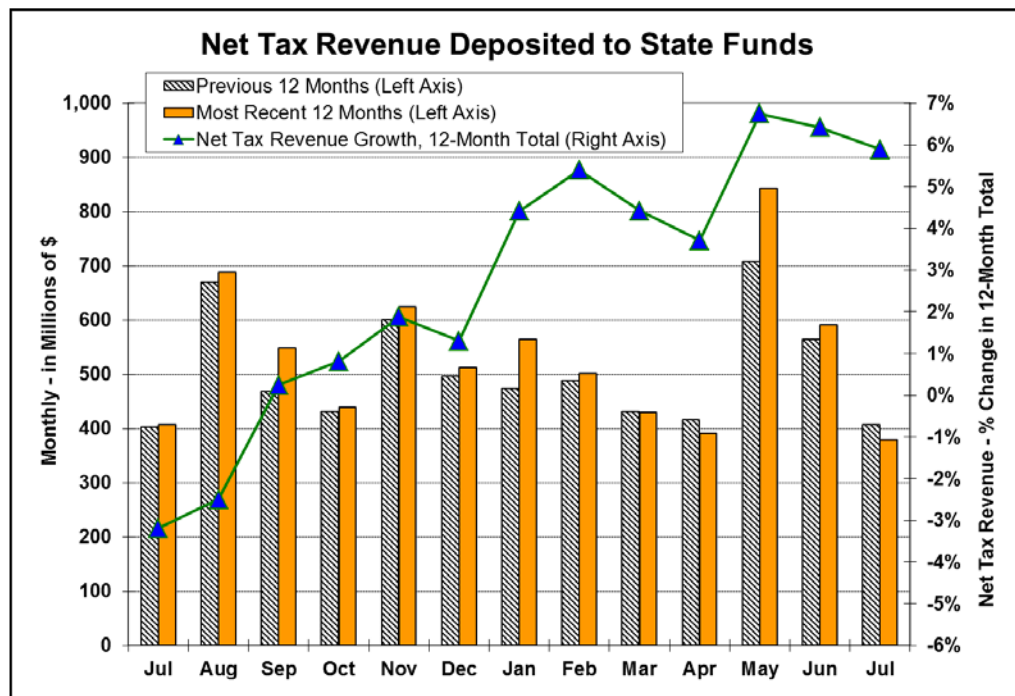
TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives

FROM: Jeff Robinson
 Shawn Snyder

DATE: August 26, 2011

Twelve-month Total Net Tax Receipts Through July 31, 2011

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending July 2011 with comparisons to the previous twelve months. July 2010 to July 2011 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

At \$379.4 million, July 2011 net State tax revenue was 6.8% lower than July 2010. A significant portion of the revenue reduction is due to deposit timing issues. However, even after adjustment the month's revenue growth is negative. The withholding tax component of

individual income tax revenue was positive for July, and after adjustments, so was sales/use tax revenue. This indicates the underlying economy continues to expand, but perhaps at a slower pace. At \$6.512 billion, annual revenue is up a significant 5.9% compared to the previous 12 months, but it remains well below the pre-recession peak level of \$6.760 billion (September 2008).

Month of July Comparison

July net tax receipts totaled \$379.4 million, a decrease of \$27.6 million (- 6.8%) compared to July 2010. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$8.0 million, 4.1%) - Gross individual income tax deposits increased \$13.1 million while refunds increased \$5.1 million, resulting in the modest net gain for the month. The withholding tax deposit component of gross revenue increased 6.1% in July, although three-fourths of the gain can be traced to a deposit timing event that will reverse in August.
- Sales/Use Tax (negative \$2.5 million, - 2.4%)
 - Road Use Tax Fund use tax (fees for new registrations) increased \$1.2 million (4.7%).
 - Gross General Fund sales/use tax receipts increased \$3.7 million while regular tax refunds increased \$0.9 million. The negative month for net sales/use tax receipts was the result of a \$6.5 million increase in the monthly transfer of school infrastructure refunds.
- Corporate Income Tax (negative \$24.3 million, - 122.7%) – Gross corporate income tax receipts decreased \$1.7 million while corporate refunds increased \$22.6 million. About \$14.0 million of the refund increase was due to a tax credit refund timing issue that will reverse in August.
- Fuel Tax (negative \$4.0 million, - 9.7%) – A \$2.7 million decrease in gross fuel tax deposits was compounded by a \$1.3 million increase in fuel tax refunds.
- Cigarette and Tobacco Taxes (negative \$1.3 million, - 6.8%)
- Gambling Tax (negative \$3.1 million, - 23.1%) – Gambling tax is deposited on Thursday's and there were four Thursdays in July 2011 versus five in July 2010.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending July 2011, net revenue from all taxes deposited to State funds totaled \$6.512 billion, an increase of \$361.9 million (5.9%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$209.7 million, 7.9%) –The annual growth rate for the withholding tax deposit portion of individual income tax has been between 5.0% and 6.0% since February 2011, indicating that job and/or wage growth remains positive. However, at \$2.856 billion, the level of net individual income tax revenue over the past 12 months is essentially the same as three years ago and is 2.0% below the November 2008 peak.
- Sales/Use Tax (positive \$123.3 million, 5.8%) – While sales/use tax revenue is up 5.8% over the past year, receipts were \$35.9 million (-1.6%) below the November 2008 peak level.

- Corporate Income Tax (positive \$12.1 million, 5.5%) – Although July was a negative month for corporate tax revenue, net corporate tax revenue remains positive year-over-year. Corporate tax revenue was down double digits year-over-year as recently as April.
- Fuel Tax (positive \$8.7 million, 2.0%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 3.8% while taxable diesel sales increased 5.3%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are 4.2% lower than the March 2008 peak diesel sales level and total taxable fuel gallons are only 1.1% above the pre-recession (August 2007) peak for all gallons sold.
- Gambling Tax (positive \$4.2 million, 1.5%) – According to Racing and Gaming Commission statistics, six of Iowa's 18 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending July 2011. The combined AGR growth for the 18 facilities was positive 1.43% over the same 12-months last year, with the new Lyon County casino (opened June 2011) contributing significantly to the AGR growth. Adjusted gross receipts for the most recent 12 months totaled \$1.385 billion.
- Cigarette and Tobacco Tax (negative \$3.3, -1.4%)
- Insurance Premium Tax (positive \$7.4 million, 8.3%) – The increase is likely the result of fewer redemptions of tax credits compared to last year.

Tax Spotlight – Motor Vehicle Fuel Tax

Motor vehicle fuel is taxed under Iowa Code Chapter 452A. The tax is imposed on each gallon of fuel sold in Iowa for use in most motor vehicles and aircraft. Tax rates for July 1, 2011, through June 30, 2012, are:

- Gasoline - \$0.210 per gallon
- Ethanol Blended Gasoline - \$0.19 per gallon
- E-85 - \$0.19 per gallon
- Aviation Gasoline - \$0.08 per gallon
- Diesel Fuel - \$0.225 per gallon
- Liquefied Petroleum Gas (LPG) - \$0.20 per gallon
- Aviation Jet Fuel - \$0.03 per gallon
- Compressed Natural Gas - \$0.16 per 100 cubic feet

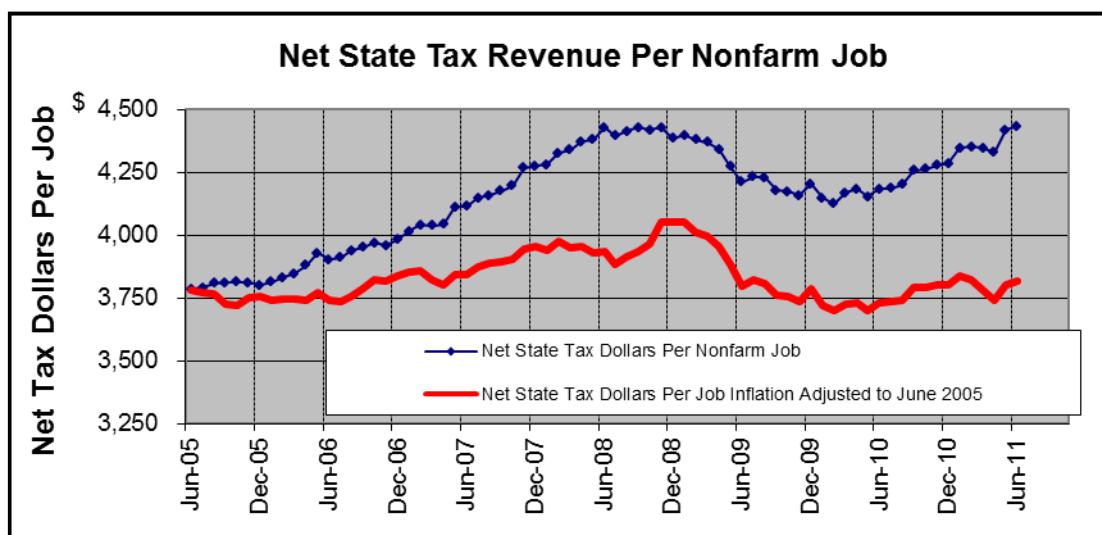
The Iowa motor fuel tax was imposed in 1925 in SF 312 (Gasoline License Fee Act) at a rate of \$0.02 per gallon. The tax rates for gasoline and diesel fuel have increased periodically since enactment. In 1989, the tax rate on diesel fuel was increased to its present rate of \$0.225 per gallon and the tax rate on gasoline was increased to \$0.20 per gallon. House File 716 (Ethanol-Blended Gasoline and Related Taxes Act of 2001) established a motor vehicle fuel tax schedule. The Department of Revenue establishes the per-gallon tax rate on gasoline and ethanol-blended gasoline based on the tax schedule. The market-share of ethanol-blended gasoline during a calendar year determines the tax rate on gasoline and ethanol-blended gasoline for the following fiscal year. The tax rate per gallon could range from \$0.19 to \$0.20 on ethanol-blended gasoline and \$0.20 to \$0.21 on gasoline. The use of the tax schedule was to end after FY 2007; however the General Assembly extended the use of the tax schedule

through FY 2012 in SF 601 (Standing Appropriations Act of 2007). Starting in FY 2013, the tax rate on gasoline and ethanol blended gasoline will be \$0.20 per gallon.

Motor vehicle fuel tax returns are filed by the licensee and are due by the last day of the month following the month when the fuel was withdrawn from its terminal. Aviation fuel tax receipts are credited to the State Aviation Fund (Iowa Code Section 452A.82). Starting in FY 2008, tax receipts from the sale of gasoline used in water craft are deposited in the Marine Fuel Tax Fund (Iowa Code Section 452A.84). The remainder of the motor fuel tax revenue is credited to the Road Use Tax Fund.

Tax Revenue and Employment

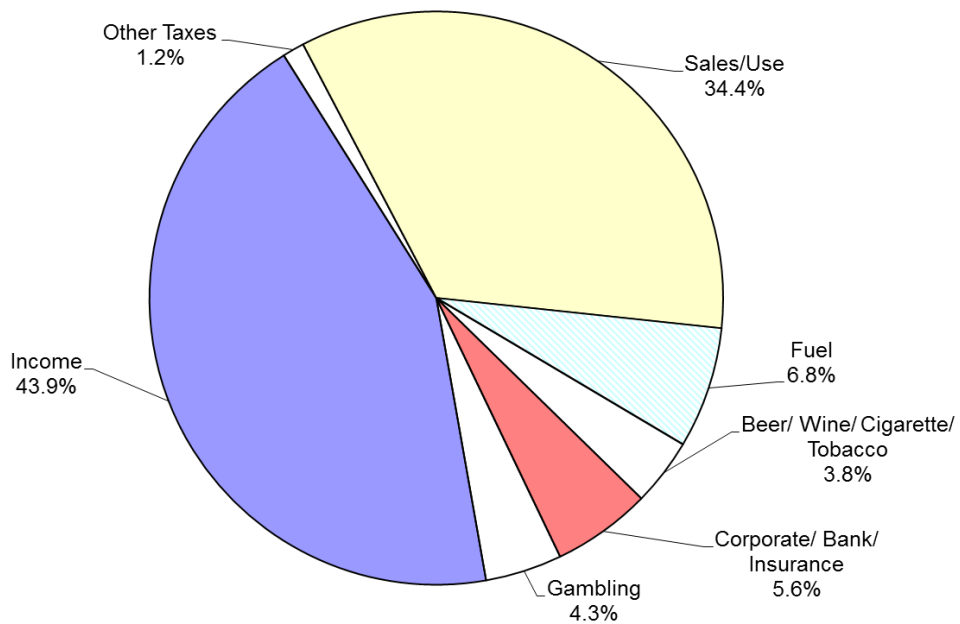
The average reading for Iowa nonfarm employment over the 12 months ending June 2011 is 1,474,800 and net State tax receipts over the same twelve months totaled \$6.540 billion, or \$4,435 per nonfarm job. This is \$650 (17.2%) higher than the per-job average for the 12 months ending July 2005. Over that same time period, inflation (CPI-U) increased 16.1%. Therefore, State tax revenue per job has slightly exceeded the rate of inflation since July 2005 (red line on the chart below). The following chart provides a historical perspective of tax collections per nonfarm job and inflation-adjusted tax collections per job.



Net State Tax Revenue - Twelve Months Ending July 2011

Net Revenue = \$6.512 Billion

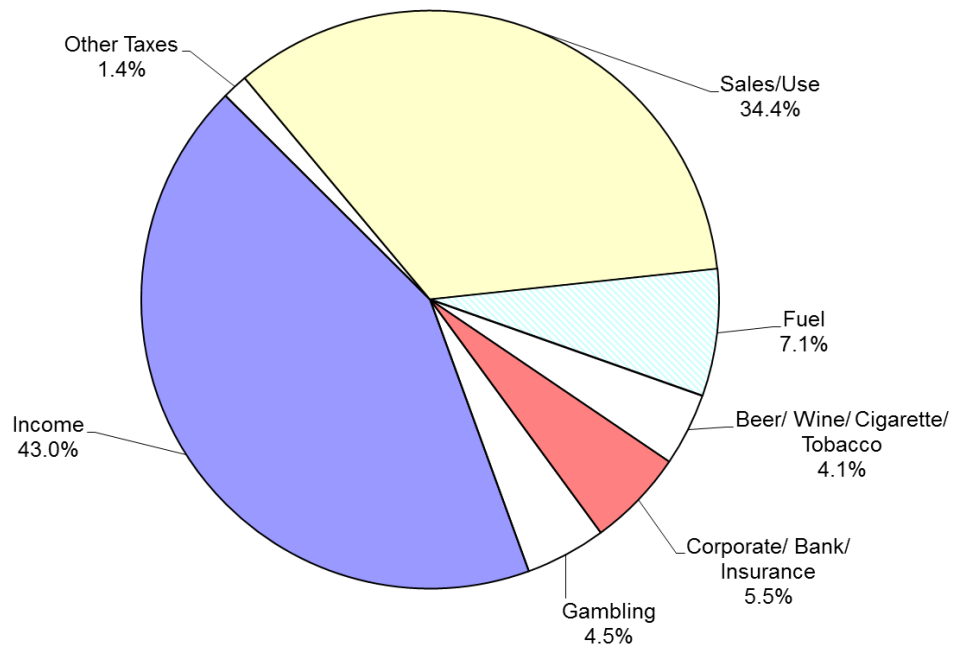
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending July 2010

Net Revenue = \$6.150 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of July 2010	Month of July 2011	July \$ Change	July % Change
Banking	\$ 27.3	\$ 35.0	\$ 7.7	28.2%	\$ 1.2	\$ 4.1	\$ 2.9	241.7%
Beer & Wine	21.2	21.4	0.2	0.9%	2.0	2.0	0.0	0.0%
Cigarette & Tobacco	228.9	225.6	- 3.3	-1.4%	19.0	17.7	- 1.3	-6.8%
Corporate Income	219.4	231.5	12.1	5.5%	19.8	- 4.5	- 24.3	-122.7%
Fuel	436.9	445.6	8.7	2.0%	41.4	37.4	- 4.0	-9.7%
Gambling	277.5	281.7	4.2	1.5%	13.4	10.3	- 3.1	-23.1%
Individual Income	2,646.2	2,855.9	209.7	7.9%	194.6	202.6	8.0	4.1%
Inheritance	66.3	63.6	- 2.7	-4.1%	6.5	5.1	- 1.4	-21.5%
Insurance	89.1	96.5	7.4	8.3%	1.5	1.0	- 0.5	-33.3%
Other Taxes	8.4	3.4	- 5.0	-59.5%	- 0.5	- 1.4	- 0.9	--
Real Estate Transfer	13.8	13.4	- 0.4	-2.9%	2.0	1.5	- 0.5	-25.0%
Sales/Use	2,115.5	2,238.8	123.3	5.8%	106.1	103.6	- 2.5	-2.4%
Total Net Taxes	<u>\$ 6,150.5</u>	<u>\$ 6,512.4</u>	<u>\$ 361.9</u>	5.9%	<u>\$ 407.0</u>	<u>\$ 379.4</u>	<u>\$ - 27.6</u>	-6.8%
Gross Tax & Refunds								
Gross Tax	\$ 7,413.0	\$ 7,786.3	\$ 373.3	5.0%	\$ 473.3	\$ 482.5	\$ 9.2	1.9%
Tax Refunds	\$ - 1,262.7	\$ - 1,273.8	\$ - 11.1	0.9%	\$ - 66.3	\$ - 103.1	\$ - 36.8	55.5%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,213.9	\$ 5,533.5	\$ 319.6	6.1%	\$ 326.7	\$ 289.5	\$ - 37.2	-11.4%
Road Use Tax Fund	\$ 696.6	\$ 730.6	\$ 34.0	4.9%	\$ 66.5	\$ 63.6	\$ - 2.9	-4.4%
Non-GF Gambling	\$ 220.6	\$ 213.7	\$ - 6.9	-3.1%	\$ 13.2	\$ 10.1	\$ - 3.1	-23.5%
Other State Funds	\$ 19.2	\$ 19.4	\$ 0.2	1.0%	\$ 0.6	\$ 0.9	\$ 0.3	50.0%
Local Option Taxes *	\$ 785.0	\$ 814.4	\$ 29.4	3.7%	\$ 69.5	\$ 80.4	\$ 10.9	15.7%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.